

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 08/15)

Fiscal Year 2016/2017	Business Unit 7760	Department General Services	Priority No.
Budget Request Name 7760-004-BCP-BR-2016-GB		Program 6330 - Statewide Support Services	Subprogram 6330046 - Procurement Division

Budget Request Description
Enhancing Procurement Cost Savings for State Departments (FI\$Cal)

Budget Request Summary

The Department of General Services, Procurement Division (DGS-PD) requests an augmentation of \$670,000 in expenditure authority and four positions in Fiscal Year (FY) 2016-17 and an additional \$1.26 million and eight positions in FY 2017-18 from the Service Revolving Fund. These positions are critical to support increased acquisitions workload that DGS-PD will be expected to assume due to greatly enhanced cost savings opportunities in procurements that will arise from the implementation of the Financial Information System for California (FI\$Cal) project. FI\$Cal will integrate and significantly re-engineer statewide business processes related to procurement. As part of a comprehensive implementation of FI\$Cal, new data will be accessible, which will allow DGS-PD the ability to combine larger volume purchases and achieve greater savings for the state estimated at \$213.4 million annually in state purchasing. DGS-PD will recover the cost for the positions without any increase to its billable hourly rate or the acquisition surcharge.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

☐ FSR ☐ SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By <i>C. C. M. [Signature]</i>	Date 12/31/15	Reviewed By <i>Shonda E. Basawick</i>	Date 12/31/15
Department Director <i>[Signature]</i>	Date 12/31/15	Agency Secretary <i>[Signature]</i>	Date 1-4-16

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA <i>[Signature]</i>	Date submitted to the Legislature 1/7/16
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BCP Fiscal Detail Sheet

BCP Title: Enhancing Procurement Cost Savings for State Departments (F&Cal)

DP Name: 7760-004-BCP-DP-2018-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	4.0	12.0	12.0	12.0	12.0
Total Positions	0.0	4.0	12.0	12.0	12.0	12.0
Salaries and Wages						
Earnings - Permanent	0	316	898	898	898	898
Total Salaries and Wages	\$0	\$316	\$898	\$898	\$898	\$898
Total Staff Benefits	0	184	467	467	467	467
Total Personal Services	\$0	\$480	\$1,365	\$1,365	\$1,365	\$1,365
Operating Expenses and Equipment						
5301 - General Expense	0	78	227	227	227	227
5302 - Printing	0	4	12	12	12	12
5304 - Communications	0	6	18	18	18	18
5320 - Travel: Out-of-State	0	2	5	5	5	5
5320 - Travel: In-State	0	16	48	48	48	48
5322 - Training	0	2	6	6	6	6
5324 - Facilities Operation	0	48	144	144	144	144
5326 - Utilities	0	12	36	36	36	36
5346 - Information Technology	0	14	42	42	42	42
5368 - Non-Capital Asset Purchases - Equipment	0	8	24	24	24	24
Total Operating Expenses and Equipment	\$0	\$190	\$562	\$562	\$562	\$562
Total Budget Request	\$0	\$670	\$1,927	\$1,927	\$1,927	\$1,927

Fund Summary

Fund Source - State Operations						
0666 - Service Revolving Fund	0	670	1,927	1,927	1,927	1,927
Total State Operations Expenditures	\$0	\$670	\$1,927	\$1,927	\$1,927	\$1,927
Total All Funds	\$0	\$670	\$1,927	\$1,927	\$1,927	\$1,927

Program Summary

Program Funding						
6330046 - Procurement	0	670	1,927	1,927	1,927	1,927
9900100 - Administration	0	66	191	191	191	191
9900200 - Administration - Distributed	0	-66	-191	-191	-191	-191
Total All Programs	\$0	\$670	\$1,927	\$1,927	\$1,927	\$1,927

	Salary Information								
Positions	Min	Mid	Max	CY	BY	BY+1	BY+2	BY+3	BY+4
VR00 - Various (Eff. 07-01-2016)				0.0	4.0	12.0	12.0	12.0	12.0
Total Positions				0.0	4.0	12.0	12.0	12.0	12.0
Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4			
VR00 - Various (Eff. 07-01-2016)	0	316	898	898	898	898			
Total Salaries and Wages	\$0	\$316	\$898	\$898	\$898	\$898			
Staff Benefits									
5150900 - Staff Benefits - Other	0	164	467	467	467	467			
Total Staff Benefits	\$0	\$164	\$467	\$467	\$467	\$467			
Total Personal Services	\$0	\$480	\$1,365	\$1,365	\$1,365	\$1,365			

Analysis of Problem

A. Budget Request Summary

The DGS-PD requests an augmentation of \$670,000 in expenditure authority and four positions in FY 2016-17 and an additional \$1.26 million and eight positions in FY 2017-18 from the Service Revolving Fund to support additional acquisitions projected to occur due to the implementation of the FI\$Cal project. FI\$Cal will integrate and significantly re-engineer statewide business processes related to procurement. As part of a comprehensive implementation of FI\$Cal new data will be accessible, which will allow DGS-PD the ability to combine larger volume purchases and achieve greater savings for the state.

To achieve anticipated statewide savings, DGS-PD workload will increase significantly. DGS-PD is already at full capacity and cannot redirect personnel. FI\$Cal implementation will allow DGS-PD to improve the management of statewide procurement activities and increase strategic sourcing, such as selecting best performing suppliers and obtaining an estimated annual statewide savings of \$213.4 million in state purchasing. DGS-PD will recover the cost for the positions without any increase to its billable hourly rate or the acquisition surcharge.

B. Background/History

DGS was established through GC Sections 14600, et seq. "to provide centralized services including, but not limited to [...] purchasing. Additionally, it establishes a state procurement officer within the department. The Public Contract Code (Sections 10290, et seq.) further confers state contracting control to the Department allowing the Department to delegate purchasing authority to other departments and state agencies.

GC Sections 11850 et seq., establishes FI\$Cal as a single integrated financial management system for the state that encompasses the management of resources and dollars. The Legislative intent for FI\$Cal is, among other things, to track purchase volumes and costs by vendor, commodity and/or service code, to increase strategic sourcing opportunities, reduce purchase prices, and capture total state spending data. Additionally, to reduce procurement cycle time by automating purchasing authority limits and approval dependencies, and easing access to goods and services available from existing sources, including, leveraged procurement agreements.

FI\$Cal is a technology business transformation project that will enable the state to combine its accounting, budgeting, cash management, and procurement operations into a single, integrated financial management system. FI\$Cal will eliminate hundreds of independent legacy systems and department-specific applications that now support internal business operations of the state. Most of these antiquated legacy systems were built in the 1970s and 1980s and have exceeded their useful lives. In addition, most of these systems do not communicate with each other, and business operations often rely on separate downstream databases. These databases also must be maintained and often contain duplicate or inconsistent data. Because of the decentralized and antiquated nature of the state's business operating systems, the state's financial operations have become highly inefficient and challenging to manage. FI\$Cal will provide the state with a centralized, integrated system for fiscal information that employs standard data definitions and modern data management processes.

Requested additional staffing in DGS- PD will allow the state to realize cost savings and increase productivity through improvements in the procurement process. This will include better management of statewide procurement and the ability to increase strategic sourcing. The new FI\$Cal system will provide improved purchasing compliance functionality and access to statewide contracts and leveraged procurement agreements. FI\$Cal will also provide sophisticated analytical capability on such things as departmental and statewide expenditures and vendor performance that has never been available to California.

In October 2011, The Hackett Group (Hackett) benchmarked that the new FI\$Cal system will provide improved purchasing compliance functionality and opportunity assessments for new statewide contracts and leveraged procurement agreements. Hackett estimates a minimum projected annual cost avoidance of \$213.4 million, achieved through the ability to increase strategic sourcing. Without additional resources, DGS-PD will be unable to achieve the statewide savings identified by the Hackett study.

Analysis of Problem

Resource History (Dollars in thousands)

Program Budget	2010-11	2011-12	2012-13	2013-14	2014-15
Authorized Expenditures	32,426	30,008	28,118	30,962	33,014
Actual Expenditures	24,192	26,095	24,277	30,494	TBD
Revenues	29,817	32,539	29,738	37,524	TBD
Authorized Positions	221.8	221.8	196.7	169.2	169.4
Filled Positions	189.9	183.5	180.2	163.6	TBD
Vacancies	31.9	38.3	16.5	5.6	TBD

C. State Level Considerations

DGS-PD is a fee-for-service entity and recovers its costs through a billable hourly rate and an acquisition surcharge. The positions requested are expected to generate \$200 million in leveraged procurement agreement savings. DGS-PD expenditure authority will need to be increased to fund the additional positions it is requesting; however, it should be noted that the entire cost of the positions will be recovered without any increase to the billable hourly rate or the acquisition surcharge. Therefore, there is no negative impact to the state.

DGS-PD believes this proposal models the way of excellence in the business of government and aligns with the goals of the Department:

- **We Are Customer Centered:** This proposal implements measurable processes which will continuously enhance service delivery to make us a service provider of choice.
- **We Deliver Efficient and Effective Results:** This proposal reduces costs while maintaining or improving services, and uses data to make informed business decisions and allocate resources.
- **We Work as One Enterprise:** This proposal delivers services and processes from an enterprise perspective while recognizing the distinct functions in the organization.
- **We are a Healthy Organization:** This proposal allows us to be an employer of choice, and actively solicit better ideas and improved ways to do things from everyone at DGS-PD.

Further, this proposal aligns with DGS-PD's mission to "deliver innovative procurement solutions enabling our customers to serve the people of California."

Approval of this proposal will provide the resources critical for DGS-PD to achieve more than \$200 million in annual savings to the State.

D. Justification

In order to accomplish the projected savings for the state, as highlighted in the Hackett report, DGS-PD requests an expenditure authority augmentation of \$670,000 and four positions in FY 2016-17 and \$1.26 million and eight positions in FY 2017-18, ranging from Staff Service Analyst to the highly technical Senior Electronic Data Processing Acquisition Specialist (Supervisory) and Associate Procurement Engineer. DGS-PD will recover the cost for the positions without any increase to its billable hourly rate or the acquisition surcharge.

The additional staff will analyze departmental contract spending data through the FI\$Cal system, identify where the state is making numerous purchases of "like" products and combine all of those purchases into a single, statewide contract. Utilizing larger volume purchases will achieve greater savings for the state. For example, if 50 departments are currently buying 1,000 widgets at an average of \$100.00 each, DGS-PD can consolidate the departmental purchases together and negotiate one contract at a lower cost (e.g., \$80.00 each) saving the state a significant amount of money. DGS-PD's new staff will be able to procure these contracts using FI\$Cal's resources and the authority from Public Contract Code §§ 10298 and 12100.

Analysis of Problem

DGS-PD staff will identify information technology and service contracts that are being commonly purchased by multiple departments. Then they will compile and analyze the data, a contract buyer will develop, over a period of about six months working with multiple stakeholders, a solicitation that meets the needs of all departments. Once multiple bidders are identified and the contract goes out to bid, the bids will be reviewed for compliance and awarded (about 45 days). Staff will then administer the contract, track how much and by whom the contract is being used and develop the next solicitation. DGS-PD estimates that this process will repeat between 12-20 times annually as the analytics from FI\$CAL develop. Each new statewide contract developed by DGS -PD will average \$15-20 million in value and require an average of 800 FTE hours to develop and award.

In addition, procedures will be established, protests will be vetted and Agency questionnaires will be developed and compiled for procedure improvements based on lessons learned. Currently, DGS-PD has fully deployed all current personnel with no vacancies available for redirection. DGS- PD is in need of additional personnel to utilize FI\$Cal's data and provide the state a significant amount of savings.

The synergy between higher usage of statewide contracts and visibility into statewide spending will give the state the ability to negotiate more optimal supplier agreements, higher volume discounts and better quality products and services. Based on their peer group data, Hackett conservatively estimates the annual cost savings from this increase in effectiveness to be over \$213.4 million through volume purchasing and leveraged procurements that result in a lower cost of goods and services.

Currently, DGS-PD is at full capacity and cannot redirect existing staff to the new workload resulting from FI\$Cal implementation and the subsequent development and administration of new contracts resulting from FI\$Cal analytics. Approval of this proposal will allow DGS-PD to negotiate optimal supplier agreements, higher volume discounts, better quality, and pursue legislatively mandated procurement programs. Additionally, DGS-PD will have dedicated resources to focus on statewide procurement implementation. DGS-PD requests the following positions to develop and administer new statewide contracts and to achieve the estimated savings of \$213.4 million from statewide procurement activities resulting from the implementation FI\$Cal:

Associate Procurement Engineers (APE)

DGS-PD requests two full-time APE positions to develop and review specifications for new contracts developed from FI\$Cal data and meet with customer agencies. Specifically, under direction of the Standards & Quality Control Manager, the engineers will perform difficult quality control engineering work or develop technical procurement specifications and standards; act as lead-person over subordinate staff members in connection with research studies and investigations of data for standards and specifications for materials, equipment and supplies. Additionally, the engineers will independently make or supervise quality control engineering surveys, research and studies; make engineering calculations of energy consumption and life-cycle costing.

Senior Electronic Data Processing (EDP) Acquisition Specialist (Supervisory)

DGS-PD requests one full-time Senior EDP Supervisor position to supervise the assignment of technical acquisition-related projects which are expected to rise during and after FI\$Cal implementation. The incumbent will also review important technical specifications for proposed state procurements; incredibly important details that will determine the success or failure of a procurement. Additionally, this supervisor will see to the details of contracting, including structuring contracts, negotiations, performance reviews of various commodities, etc. This position will also perform complicated and highly specialized work associated with technology procurement that less experienced staff will be unable to handle.

Senior Electronic Data Processing Acquisition Specialist (Senior EDP) (Technical)

DGS-PD requests two full-time Senior EDP Technical Specialist positions to act as lead persons in negotiations with high-level state agency personnel on the most difficult procurements. With the implementation of FI\$Cal, more technical staff are needed to ensure agencies are getting products appropriate

Analysis of Problem

to their needs. They will also serve as leaders of technology procurement teams providing important technical knowledge to project teams on major projects and supporting mission critical procurement operations.

Staff Electronic Data Processing Acquisition Specialist (Staff EDP)

DGS-PD requests five full-time Staff EDP positions to lead teams consisting of high-level agency staff and vendor representatives dedicated to the purchase of electronic hardware, software and associated services through statewide contracts, various bidding processes and other formal methods of acquisition. Staff will also work independently to buy or lease these commodities and services when necessary.

Staff Services Analyst (SSA)

DGS-PD requests two full-time SSA positions to assist in the review, collection and presentation of data related to technology procurements. They will also write reports, prepare presentations and advise on matters of general complexity under supervision. They may also assist in the assessment of policy, financial and other impacts on the Division's projects.

E. Outcomes and Accountability

This proposal will permit DGS- PD to utilize permanent staff to analyze and develop leveraged statewide contracts to achieve an estimated annual statewide savings of \$213.4 million in state purchasing. DGS-PD will use outcomes-based reporting through the existing DGS-PD Scorecard to track development of leveraged contracts and savings captured through their use. The DGS-PD Intake and Analysis Unit (IAU) will capture all research of FI\$Cal analytics in the SharePoint IAU log file, and will make it a component of the DGS-PD Scorecard.

FI\$Cal will integrate and significantly re-engineer statewide business processes related to procurement. Approval of this proposal will allow DGS-PD to negotiate optimal supplier agreements, higher volume discounts, better quality, and pursue legislatively mandated procurement programs. Additionally, DGS-PD will have dedicated resources to focus on efficient and effective statewide procurement implementation.

F. Analysis of All Feasible Alternatives

Alternative 1: Approve an augmentation of \$670,000 and four positions in FY 2016-17 and an additional \$1.26 million and eight positions in FY 2017-18 to meet FI\$Cal needs converting analytics into large volume contracts.

Pros:

- Improves management of statewide procurement and ability to increase strategic sourcing.
- Improves the state's ability to negotiate more optimal supplier agreements based on FI\$Cal analytics.
- DGS-PD will begin to realize savings on contracting and time on contracting.
- This proposal is cost neutral to the state as DGS-PD will recover the cost for the positions without any increase to its billable hourly rate or the acquisition surcharge.

Cons:

- Delays in developing leveraged contracts will result in departments not saving on contracting. Departments may not see increased productivity in administrative and contracting functions. Incremental phasing also puts the state at risk of not successfully implementing the savings assumed by FI\$Cal.
- Longer training times as staff are introduced over two years, and will result in pulling existing key staff from vital projects to initiate the training.

Analysis of Problem

- As opportunities are discovered, it will take six months to a year for staff to begin exploring those opportunities for savings.

Alternative 2: Approve an augmentation of \$1.93 million and 12.0 positions beginning in fiscal year 2016-17 to meet FI\$Cal needs converting analytics into large volume contracts.

Pros:

- Provides consistent, stable and robust staffing to meet the increased demands of meeting FI\$Cal objectives for savings highlighted in the Hackett report.

Cons:

- Will result in growth of state government.
- Staff may be deployed prior to opportunities being discovered.

Alternative 3: Continue with current DGS-PD staffing levels and operating procedures.

Pros:

- DGS-PD will have no growth in positions.

Cons:

- DGS-PD will be unable to meet procurement improvement expectations and the actual benefits realized will be substantially less than anticipated by the Hackett study.
- Departments will not save on contracting and staff time spent on preparing contracts.
- Departments will not see increased productivity in administrative and contracting functions.
- As work comes from FI\$Cal to be processed, resources will be pulled from DGS-PD's service portfolio and will jeopardize meeting current customer service objectives.

G. Implementation Plan

Upon approval of this proposal DGS-PD will begin the recruitment process, effective July 1, 2016. As positions are filled, newly appointed staff will receive training on their programs and specific job duties to meet the significant workload demands of FI\$Cal.

H. Supplemental Information

N/A

I. Recommendation

Approve Alternative #1 for an augmentation of \$670,000 in expenditure authority and four positions in FY 2016-17 and an additional \$1.26 million and eight positions in FY 2017-18 from the Service Revolving Fund to support additional acquisitions projected due to the implementation of the Financial Information System for California (FI\$Cal) project. FI\$Cal will integrate and significantly re-engineer statewide business processes related to procurement. As part of a comprehensive implementation of FI\$Cal, new data will be accessible, which will allow DGS-PD the ability to combine larger volume purchases and achieve greater procurement savings for the state estimated at \$213.4 million annually.